

Point 1. of the Staff Committee assignment reads as follows:

Prepare an analysis of the trade between the United States and the Soviet bloc countries with the exception of Poland for the purpose of determining the impact of United States and CoCom trade controls on such trade.

1. U. S. exports to Soviet bloc; Level - \$232 million in 1947 dropping rapidly to \$17 million in 1950, \$3.8 million in 1952 and rising to \$13 million in 1957. USSR share dropped faster than for satellites; USSR quarterly 1947 average of \$37.3 million dropped by quarters in 1948 to \$20.8, \$4.2, \$1.7 and \$1.2 million respectively; USSR share now about 40%;

Composition - Metals and manufactures and machinery and vehicles were largest classes in 1947 exports - 62% of total; these are reasserting themselves along with chemicals and related products in current exports; most significant areas of current demand are chemical plant and technology. (See Tab 1.)

2. U. S. Imports from Soviet bloc: Level - \$97.6 in 1947 increasing to \$111.9 million in 1948, and dropping to \$28.9 million in 1952 and remaining between \$20.4 and \$38.4 million annually since then with USSR accounting for over 50%. Imports from USSR were \$72.2 million in 1947, rose to \$86.2 million in 1948 and dropped to \$42.5, \$40.3, \$32.3, \$16.8 and \$10.8 for following years through 1953.

Composition - Imports were concentrated in inedible animal products and metal classes in 1947-1948. In 1956-1957 the major classes were chemicals (benzene) and inedible animal products. Drop in imports from USSR between 1948 and 1950 was largely accounted for by manganese and chromium export stoppage, stoppage in returning lend-lease vessels and significant drop in fur exports. Drop between 1950 and 1953 probably due to U.S. legislation on fur imports. Manganese and chromium stoppages are assumed to be in retaliation for U.S. export control policy. (See Tab 2.)

3. Impact of Controls on U. S. trade with Soviet bloc:

1. In 1948 - 1950 period: Imports - dropped from \$114.1 million in 1948 to \$70.9 million in 1950; caused by drops in Russian exports, as indicated above. Imports from satellites increased by about \$3 million.

Exports - dropped from \$232.2 million in 1947 to \$67.6, \$38.5 and \$17.8 million in following 3 years. Drop accounted for in part by U. S. Governmental policy on export controls; dropping or running out of economic assistance to Soviet bloc and the USSR increase in trade with the rest of Eastern Europe. Impact on U. S. industry was modest because order books were full from both domestic and friendly foreign orders, some items still under short supply controls, and many shipments to Soviet bloc were still being approved.

\*DOC Exempt Letter In ERU File\*

In March 1948 - February 1950 period of \$181.3 million of license applications for Soviet bloc, \$80.2 million were approved and \$101.3 million were denied - See Tabs 4 and 5 for illustrative cases. Requests for export were concentrated in industrial materials and equipment of more advanced types. Bloc trade small percentage of total U.S. exports. Replacement of U.S. exports by other Free World sources was small during this period since other Free World industrial countries were most concerned about reestablishing their industrial economies and repairing war damage; they were also dependant on U. S. for most technical, material and financial assistance; Marshall Plan had begun.

- B. In 1951-52-53 period: Imports - fell from \$61.6 million to \$20.4 with 1953 representing lowest level in total 1947-53 period. Decline showed equally by USSR and satellites. All classes fell except chemicals where imports from satellites trebled. Major causes for fall to 1/3 of 1951 level attributable to Korean War.

Exports - \$2.1, 0.8 and \$1.2 million respectively; low level probably accounted for more by influence of Korean War and impact of military demands of U.S. and Allies than by U.S. control policy although latter tightly administered. Impact on U. S. industry was small because total domestic and foreign trade at high levels, fewer bloc orders, materials in tight supply. Replacement of U.S. exports by other Free World sources remained small because CoCom had agreed control broad spectrum of strategic goods and significant export availability of many of them still lay ahead; however, era of heavy dependence on U.S. economic aid was closing in favor of military aid program.

- C. In 1954 - 1956 period: Imports - \$21.3, \$29.2, \$38.4 and \$30.9 million through 1957; three quarters 1958 were \$24.5 million. Increase due primarily to benzene purchases from USSR.

Exports - Annual exports did not exceed \$13.1 million. Low level in early part of period largely due to tight control policy, negative orientation of industry on such trade, planned rapid increase in inter-bloc trade, and, most importantly, relatively few orders from the Soviet bloc. During latter period probably caused by lack of orders in most fields, lack of clear governmental policy in chemical plant and technical data fields; government policy remained tight on strategic goods and favored export of most other goods. Impact on U. S. industry was of some significance because of presence of attractive trade offers in some fields (See Tabs 6, 7 and 8), evidence that Soviet bloc had advanced far in military and industrial fields, and fluctuations in domestic business levels. Some groups not interested because of assistance such exports may be to Bloc's economic penetration, market disruption activity and general economic competition - warfare challenge issued by Khrushchev. But total probable export trade would be small percentage of total U. S. exports. Replacement of U. S. exports by other Free World countries was significant during this period. CoCom list reviews of 1954 and 1958 removed from CoCom

control important industrial material and equipment areas. Changes in U.S. controls were not as broad and U.S. denial policy remained broader than Cofos's. Significant shipments to Soviet bloc from Cofos countries occurred (See Tab 3 for European Cofos country exports) for which U.S. firms could probably have competed successfully on basis of quality and availability.

4. What lies ahead for U.S. trade with Soviet bloc? The answer to this question lies largely in the degree of severity which will characterize the "cold war" in the future. Allowing for no radical change in the intensity of the "cold war" the following elements will primarily influence the extent and character of U.S. trade with the Soviet bloc:

The character of U.S. trade control objectives and scope of U.S. denial policy;

The need of the Soviet bloc for exports from the U.S.;

The ability of the Soviet bloc to finance its imports from the U.S.;

The extent to which multilateral controls are and will continue to remain sufficiently broad and severe; and

The extent to which present or probable unilateral U.S. controls can have effective results in terms of basic U.S. control objectives.

The extent to which alternative sources are available in Western Europe.

5. Character of U.S. trade control objectives and scope of U.S. denial policy: Basic objective remains - to deny or limit the flow to the Soviet bloc of goods, technology and services where such action would significantly retard or limit the growth of the Soviet bloc's war potential - with regard to both its direct military machine and the industrial base to support and advance its military machine. This objective reflects a selective control concept; one alternative is to institute a total embargo; another is broaden the objective to include selective measures to restrict or retard the bloc's ability to broaden and intensify its economic penetration and other economic warfare measures against the Free World.

The scope of the U.S. denial policy has generally reflected a balanced judgment on the effectiveness of a control. On this basis the scope of U.S. denial policy has been progressively narrowed. Major factors were internal Soviet bloc military and industrial advances, commercial desires of Free World industrial countries leading to drastic revision of multilateral controls, greater sharing of Free World leadership requiring substantial compromise by U.S. in trade control program in interest of other elements of U.S. foreign policy. The scope of the denial policy has also extracted the selective serving of

other U.S. policy objectives. The future scope will continue to depend largely on the above factors plus decisions regarding a broadening of the objectives and the extent to which ample and effective intelligence and technical effort can be diverted to keeping control lists up-to-date and the extent to which adequate control techniques are developed for technical data.

Soviet bloc desire for exports from U.S.: In certain areas the Soviet bloc still stands in need of Free World technology, plant, materials and equipment in a number of areas if certain aspects of its war potential are to match that of the U.S. and certain other parts of the Free World. Not all of these are areas in which U.S. developments and production are best. Fortunately, in some of these areas - e.g., electronics, communications, numerous electronic components and equipment, and certain metals - reasonably good multilateral controls exist. For many of these items U.S. quality and availability would probably make the U.S. a preferred permanent source if shipment were permissible. In other areas the U.S. has reasonably good unilateral control over the best technology, plant and processes. Metal rolling mills, certain chemical plant processes, design and operation techniques, iron ore processing technology and advanced refrigeration equipment are examples of areas in which the Bloc's needs are most clearly relevant to U.S. exports. By its own programs and reports the Bloc reflects its need for such technology and equipment from the U.S. For these and related items U.S. export to the Soviet bloc could probably far surpass present levels of trade with that area if U.S. controls permitted and if the Bloc could pay for such imports from the U.S.

Ability of Soviet bloc to finance its imports from the U.S.: The bloc could finance purchases from the U.S. by any of the following means: exports to the U.S. of Soviet bloc products, exports to the U.S. of products procured from third countries, gold sales, credits and sales by the Soviet bloc of goods and services in other countries. Under presently foreseeable circumstances it is unlikely that the U.S. will extend credits to the Soviet bloc and even more unlikely that other Free World countries would extend credits for the purchase of goods from the U.S. The USSR has significant gold reserves which, however, have and will probably continue to be used sparingly for foreign trade purposes. The reexport to the U.S. of goods from third countries would have limited potential since the third country would react strongly against such trade activity particularly by the Soviet bloc. So long as the U.S. keeps reasonable faith with its normal Free World suppliers there is limited opportunity for Soviet bloc exports to the U.S. However, some firms appear willing to purchase from the Soviet bloc materials presently supplied from Free World sources. Examples are recent chrome ore, benzene and residual oil purchases. Increases could also occur in certain precious metals (other than gold), furs and forest products, iron ore, manganese, ferro-alloys, petroleum products, machinery and vehicles.

The Soviet bloc's ability to increase exports to the U.S. is also hampered by absence of GATT treatment.

It is also assumed that in its military and industrial developments the Soviet bloc has developed technology, equipment and materials which would be of substantial value to the U.S. effort; however, release by the Soviet bloc of these developments would undoubtedly require the release by the U.S. of its comparable developments. Total U.S. imports, however, are unlikely even under favorable circumstances to rise above an annual level of \$150 to \$200 million within the next several years.

Although this purchasing power is small in terms of total Soviet bloc production, it might, in the absence of continued controls, be concentrated in certain commodity areas. The materials, technology and equipment which the Soviet bloc seeks would be worth far more than the dollar values indicate. Complete plants of advanced types, new kinds and types of machinery, new technological developments in electronics and communication equipment -- these translate into important savings in development of production, time and capital, in source facilities and in highly trained personnel.